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# United States-Dominican Republic-Central America Free Trade Agreement Is a Win-Win

### *Executive Summary*

- Congress should soon pass the United States-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA). This important agreement expands market access for U.S. exporters of manufactured goods, agriculture products, and services.

- On February 20, 2004, President Bush notified Congress of his intent to enter into a free trade agreement with the Central American nations of Costa Rica, El Salvador, Honduras, Guatemala, and Nicaragua. The Dominican Republic became a party to CAFTA on August 5, 2004.

- The Central American markets are significant to the American economy: the DR-CAFTA countries constitute our 12th largest export market with a consumer base of nearly 44 million.

- Passage of DR-CAFTA is vital to the economic and security interests of both the United States and the DR-CAFTA countries, and it will demonstrate the U.S. commitment to foster economic prosperity in the region. It will serve to nurture democracy, transparency, and respect for the rule of law in a region that, only decades ago, was marked by internal strife.

- Commonly heard arguments against DR-CAFTA include concern that U.S. sugar producers will be adversely affected, that American textile jobs will be lost, and that Central American workers' rights and the environment will be harmed.

- The Bush Administration counters that passage of this agreement is a win-win for all parties and that it will preserve the U.S. sugar program, level the playing field for U.S. workers, strengthen freedom and democracy in the region, enable U.S. textile suppliers to compete with Asia, and enhance the enforcement of labor and environmental laws in the region.

- Among the significant consequences of failing to pass the DR-CAFTA would be: 1) a message that the U.S. is not committed to open market principles; 2) the continuation of high tariff barriers on U.S. exports to the region; and 3) the loss of an important export market for numerous U.S. suppliers of cotton, yarns, and fabrics.

- This paper addresses concerns expressed about the agreement and highlight the broad support DR-CAFTA is receiving from many different sectors of the U.S. economy.

## Introduction

Congress will soon consider whether to pass the United States-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA). This important agreement builds on other recent trade agreements by substantially expanding market access for U.S. exporters of manufactured goods, agriculture products, and services. In fact, DR-CAFTA will level the playing field with our southern neighbors by providing reciprocal access for U.S. businesses to the markets of Central America and the Dominican Republic, which already enjoy liberal access to the U.S. market.

On February 20, 2004, President Bush notified Congress of his intent to enter into a free trade agreement with the Central American nations of Costa Rica, El Salvador, Honduras, Guatemala, and Nicaragua.[1] On May 28, U.S. Trade Representative Robert Zoellick fulfilled the President's pledge and signed the U.S.-Central America Free Trade Agreement. The Dominican Republic became a party to CAFTA on August 5, 2004.

The United States has much to gain from this agreement because the Central American markets are significant to the American economy. The DR-CAFTA countries constitute our 12th largest export market with a consumer base of nearly 44 million.[2] Nearly 80 percent of Central American products already enter the United States duty-free due to unilateral preference programs such as the Caribbean Basin Initiative and the Generalized System of Preferences. CAFTA will eliminate these one-way barriers and provide reciprocal free trade. The Agreement will also provide a chance to unite with customers in the region to better compete against China, especially in apparel and textiles.

The DR-CAFTA agreement will also serve to nurture democracy, transparency, and respect for the rule of law, in a region which only decades ago was marked by internal strife. Today the Central American nations and the Dominican Republic are democracies wanting to strengthen economic ties which will in turn reinforce their progress in political and social reform. Passage of DR-CAFTA is, thus, vital to the economic and security interests of both the United States and the DR-CAFTA countries, and it will demonstrate the U.S. commitment to foster economic prosperity in the region.

Despite the great appeal of this agreement to many sectors of the American economy, there are some groups that remain opposed to it. Commonly heard arguments against DR-CAFTA include concern that U.S. sugar producers will be adversely affected, that American textile jobs will be lost, and that Central American workers' rights and the environment will be harmed.[3] The Bush Administration counters that passage of this agreement is a win-win for the United States, the Dominican Republic, and Central America that will preserve the U.S. sugar program, level the playing field for U.S. workers, strengthen freedom and democracy in the

[1] Text of a letter from the President to the Speaker of the House of Representatives and the President of the Senate, February 20, 2004.
[2] U.S. International Trade Commission (ITC), "U.S.-Central America-Dominican Republic Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects," August 2004.
[3] Representative Hilda Solis (D-CA), *Congressional Record*, March 1, 2005; Representative Sherrod Brown (D-OH), *Congressional Record*, March 2, 2005.

region, enable U.S. textile suppliers to compete with Asia, and enhance the enforcement of labor and environmental laws in the region.[4]

This paper will examine the benefits of DR-CAFTA for the United States, the Dominican Republic, and Central America. This paper will also address concerns expressed about the agreement and highlight the broad support DR-CAFTA is receiving from many different sectors of the U.S. economy. And, it will review the consequences to the United States, the Dominican Republic, and Central America if Congress should fail to pass the trade agreement.

## Why DR-CAFTA is a Win-Win for the United States, the Dominican Republic, and Central America

### *Economic Benefits – leveling the playing field for American exporters*

The DR-CAFTA market provides a large export market for the United States. As an integrated market, Central America, and the Dominican Republic purchased more than $15.1 billion in U.S. exports in 2003.[5] By tearing down tariff barriers, American workers will be able to gain better access to the 44 million consumers living in the Dominican Republic and Central America. Moreover, population in this region is expected to grow by almost 20 percent by 2015, thus adding nearly 10 million new consumers to the marketplace.[6]

While the DR-CAFTA countries buy many goods and services from the United States, it is economically important to the U.S. economy to level the playing field on trade between the United States, the Dominican Republic, and Central America. Due to trade preference programs currently in place, 80 percent of all Central American goods currently enter the United States duty-free, while the average tariff imposed on U.S. exports to Central America is between 7 and 9 percent.[7] Some tariffs on many farm goods are as high as 16 percent.[8] These high tariffs hurt our ability to export to and compete in the growing markets of the Dominican Republic and Central America. In addition, U.S. exporters face numerous non-tariff barriers that currently inhibit their ability to export goods and services to the region.

Upon full implementation of DR-CAFTA, U.S. products will enter the Dominican Republic and Central America duty-free. In fact, 80 percent of consumer and industrial goods exports are immediately duty-free upon enactment of the agreement, with the remaining 20 percent becoming duty-free over 10 years. Key U.S. export sectors will benefit including medical and scientific equipment, information technology products, construction equipment, and paper products.

The agreement will expand markets as well for U.S. agriculture. Currently, U.S. tariff barriers to agricultural exports from DR-CAFTA countries are much lower than tariffs faced by

[4] Office of the U.S. Trade Representative (USTR), "DR-CAFTA Facts: The Case for DR-CAFTA," February 2005.
[5] USTR, "Trade Facts: Free Trade with Central America, Summary of the U.S.-Central America Free Trade Agreement," December 17, 2003.
[6] Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, *World Population Prospects: The 2004 Revision* and *World Urbanization Prospects: The 2003 Revision*, http://esa.un.org/unpp
[7] Chris Padilla, "DR-CAFTA: A Vote for Freedom, Democracy, Reform," *Textile News*, February 28, 2005.
[8] USTR, "DR-CAFTA Facts: CAFTA Levels the Playing Field," February 2005.

U.S. agricultural exports to DR-CAFTA countries.[9] According to the USTR, more than half of current U.S. farm exports to Central America will become duty-free immediately, including cotton, wheat, soybeans, fruits and vegetables, high-quality cuts of beef, processed food products, and wine. Tariffs on remaining farm items will be phased out over 15 years.[10] On May 28, 2004, the American Farm Bureau Federation (AFBF), a national organization representing U.S. farmers and ranchers across the country, stated that the "U.S.-Central American Free Trade Agreement will provide a substantial competitive advantage to U.S. agriculture," and that the Bush administration has "opened up promising trade potential for the whole of U.S. agriculture."[11] It estimates that U.S. agricultural producers will increase their exports by $900 million as a result of the DR-CAFTA agreement.

In the area of services, the DR-CAFTA countries will accord substantial market access across their entire services regime, offering new access in sectors such as telecommunications, computer services, tourism, financial services, insurance, and entertainment among others. The agreement also provides state-of-the-art protections and non-discriminatory treatment for digital products such as U.S. software, music, text, and videos. Protections for U.S. patents and trademarks are strengthened.

The benefits of DR-CAFTA will be numerous. In its analysis of DR-CAFTA implementation, the U.S. International Trade Commission (ITC) found the effect of trade facilitation would likely "benefit U.S. producers, exports, service providers, and investors."[12] The USITC noted that, "after tariff liberalization has been fully implemented and all economic adjustments have occurred under the FTA, overall U.S. welfare is likely to increase in the range of $135.31 million to $248.17 million."[13] U.S. exports to DR-CAFTA countries are likely to increase by $2.7 billion (or 15 percent), and U.S. imports are likely to increase by $2.8 billion (or by 12 percent).[14]

DR-CAFTA also provides an atmosphere and, more importantly, a legal framework for guaranteeing the security of American investment in Central America. As noted by some policy analysts: "By locking in these liberal economic policies, [DR-CAFTA] offers investors certainty that policies will not suddenly reverse — a key component in investment decisions."[15] An open and transparent legal framework will encourage investment and economic growth in a region of the world that needs foreign capital to grow its economy and create jobs.

### *Political benefits – promoting regional stability*

In the 1970s, every Central American country except Costa Rica and Belize were ruled by military dictators. Lack of democracy and lack of economic opportunity led to communist insurgencies in many parts of the region that were only defeated with the support of the United

[9] USTR, "DR-CAFTA Facts: CAFTA Levels the Playing Field," February 2005.
[10] USTR, "Trade Facts: Free Trade with Central America, Highlights of the U.S.-Central America Free Trade Agreement," January 27, 2004.
[11] Statement by Bob Stallman, President of the American Farm Bureau Federation regarding the signing of the U.S.-Central American Free Trade Agreement, May 28, 2004, http://www.fb.org/news/nr/nr2004/nr0528.html.
[12] ITC, 2004.
[13] ITC, 2004.
[14] ITC, 2004.
[15] Brett D. Schaefer and Stephen Johnson, "Backgrounder #1822: Congress Should Support Free Trade with Central America and the Dominican Republic," The Heritage Foundation, February 8, 2005.

States.[16] Today, democracy flourishes in the region. People can freely choose their elected leaders. Through free-market economic reforms and U.S. trade preference programs, workers' wages are now on the rise and the standard of living throughout the region has generally improved. Many observers agree that DR-CAFTA will help lock recent political and economic gains into place by bolstering transparency and the rule of law, thereby attracting additional investment which will help to foster continued growth and stability in the region.[17]

Twenty years ago, trade between Central America and the United States was minimal. In 1984, trade between the U.S. and CAFTA countries totaled $798 million compared to $3.6 billion in 2003 — an increase of nearly 350 percent.[18] During the past few years, significant progress has been made in Central American economic integration, including a May 2000 free trade agreement between Mexico and El Salvador, Guatemala, and Honduras. In December 2001, an agreement was signed to interconnect the electricity networks of the Central American countries, allowing for regional power trading among the member states beginning in 2006.[19] The integration of electricity grids is only one of several initiatives by the Inter-American Development Bank's Puebla-Panama Plan, which seeks to promote regional development and integration of Central American countries.[20]

Public opinion throughout Central America finds that people want to have a strong trading relationship with the United States and want to see DR-CAFTA enacted. According to recent State Department polling, the opinion pattern throughout the region shows that, in most of the CAFTA countries, half of those polled are aware of the trade agreement (up from about a third in 2002-2003). Among those, a majority perceive benefits for their country (e.g., 57 percent in D.R.; 56 percent in Costa Rica; and 56 percent in Nicaragua).[21] Anticipated benefits include job creation, lower prices, and a wider variety of goods available to consumers.

Passage of DR-CAFTA by the U.S. Congress will help reinforce the positive image many Central Americans have of the United States, and will show that America does not view Central America only as a trading partner. It will show that the United States believes it has a stake in the development of its neighbors. During his confirmation hearing before the Senate Foreign Relations Committee on February 15, then Deputy Secretary of State nominee Robert Zoellick stated that "economic power is a very important component of America's power" and that "economic freedom is linked to political freedom," and so "how we integrate those can build on some of America's values and its interests."[22]

The United States has long fought for democracy and economic freedom for the people of Central America. DR-CAFTA would reinforce democratic and free-market processes through

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[16] Ed Greser, Progressive Policy Institute Policy Report, "DR-CAFTA: The United States and Central America 10 Years After the Wars," October 2003.
[17] *See, e.g., The Los Angeles Times*, editorial, November 18, 2004; USTR, "DR-CAFTA Facts: Emphatically Yes," February 2005; Stuart E. Eizenstat and David Marchick, "Trade Wins," *Wall Street Journal*, March 8, 2005.
[18] Statistical data provided by USTR.
[19] U.S. Department of Energy, Energy Information Administration, "Regional Indicators: Central America," September 2004, available at http://www.eia.doe.gov/emeu/cabs/centam.html.
[20] U.S. Department of Energy, 2004.
[21] Memo from U.S. State Department to Senate Finance Committee on "Central American Attitudes Toward CAFTA," March 16, 2005.
[22] Remarks by Robert B. Zoellick during a hearing of the Senate Foreign Relations Committee on his nomination to be Deputy Secretary of State, February 15, 2005.

such provisions as transparency and anti-corruption measures. It will also strengthen new democracies and leaders who are working to grow their economies, reduce poverty, fight crime, and deepen the roots of democracy.

## Criticisms of DR-CAFTA

### *Sugar*

Some charge the DR-CAFTA will greatly harm U.S. sugar producers due to increased imports of sugar. In fact, U.S. imports of sugar from the DR-CAFTA countries are today limited by tariff rate quotas (TRQs) currently imposed by the United States on each DR-CAFTA country,[23] and this system (albeit with slightly increased import amounts) will remain in place with DR-CAFTA.

Under the TRQs, sugar from the DR-CAFTA countries enters duty-free if it is within quota.[24] Sugar imported over-quota is assessed high tariffs, which are in effect prohibitive tariffs[25] (of over 100 percent).[26] Because of the high over-quota tariffs, imports of sugar from the DR-CAFTA countries essentially correspond to their TRQ levels.[27] It is important to note that TRQs on sugar imports from the DR-CAFTA countries will be increased only slightly as a percentage of consumption under the trade agreement,[28] and prohibitive tariffs on over-quota imports will remain intact under the DR-CAFTA.[29]

In 2003, the DR-CAFTA countries exported to the United States 325,146 metric tons of sugar — most of which was raw cane sugar — at a value of $141.3 million.[30] These imports constituted approximately 3 percent of sugar consumed in the United States during that year.[31] Additional increased access during the first year of the trade agreement will total 109,000 metric tons.[32] That increase is equivalent to little more than one day's production of sugar in the United States,[33] or about 1.2 percent of current annual U.S. sugar consumption.[34]

By the end of the 15-year phase-in period, sugar imports from this agreement will have increased by a total of 153,140 metric tons.[35] The additional access during the entire 15-year phase-in period represents less than 2 percent of the approximately 7.8 million metric tons of sugar produced in the United States in the 2003/2004 growing season.[36] Again, what the trade agreement permits is an increase in import competition of less than 2 percent relative to domestic

[23] ITC, 2004.
[24] ITC, 2004.
[25] ITC, 2004.
[26] USTR, "DR-CAFTA Policy Brief, Sugar: A Spoonful a Week," February 2005.
[27] ITC, 2004.
[28] ITC, 2004.
[29] ITC, 2004.
[30] ITC, 2004.
[31] ITC, 2004.
[32] ITC, 2004.
[33] USTR, "DR-CAFTA Policy Brief, Sugar: A Spoonful a Week," February 2005.
[34] USTR, "DR-CAFTA Policy Brief, Sugar: A Spoonful a Week," February 2005.
[35] ITC, 2004.
[36] USTR, "DR-CAFTA Policy Brief, Sugar: A Spoonful a Week," February 2005.

production — stretched out over a 15-year period. Following the phase-in period, the TRQs will grow by an additional 2,640 metric tons each year.[37]

The potential impact of these increases in the in-quota TRQs for DR-CAFTA countries appears minimal. USTR has found that approval of DR-CAFTA "would not have a destabilizing effect on the U.S. sugar program."[38] And the ITC, using its models, found that there would likely be a decrease in the U.S. price of sugar "of about one percent as a result of the increase in imports under the FTA."[39] Clearly this suggests a negligible impact on U.S. producers. Furthermore, one could argue that such declines in consumer prices could boost demand and actually increase U.S. producers' revenue.

Moreover, additional TRQ access for the DR-CAFTA countries is conditioned on each country's trade-surplus position.[40] Specifically, only net-surplus-exporting countries in the region will obtain increased access to the U.S. market. This is because the agreement limits access to the lesser of the amount of each country's net trade surplus in sugar or the specified amounts provided in each country's TRQ.[41] For example, at the present time the Dominican Republic — currently the largest TRQ holder among the DR-CAFTA countries — would not qualify for increased market access to ship additional sugar to the United States under the agreement.[42] As noted by the American Farm Bureau Federation (Farm Bureau), this situation makes the issue of increased sugar imports from the Dominican Republic moot for now.[43] According to Farm Bureau calculations, even if the Dominican Republic were to become a net exporter of sugar by 2024 – the year in which the agreement would be fully operational – its exports of sugar would increase by only $11.7 million from the Dominican Republic's current allocation of $96.3 million.

Still, some critics of the DR-CAFTA assert a second argument — that increased sugar imports under the agreement would have a destabilizing impact on U.S. domestic sugar policies by suspension of sugar marketing allotments.[44] Under marketing allotments, the U.S. Department of Agriculture restricts the amount of sugar that can be sold by domestic producers,[45] a policy designed to ensure stable sugar prices and supplies in the U.S. market.[46] Under the policy, if U.S. imports of sugar were to exceed a specified amount (approximately 1.5 million tons in a given year) marketing allotments could be suspended, thus enabling U.S. producers to compete with imported sugar under prevailing market conditions.[47]

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[37] ITC, 2004.
[38] USTR, "DR-CAFTA Policy Brief, Sugar: A Spoonful a Week," February 2005.
[39] ITC, 2004.
[40] ITC, 2004.
[41] USTR, "DR-CAFTA Policy Brief, Sugar: A Spoonful a Week," February 2005.
[42] *Inside U.S. Trade*, "USTR Threatens Dominican Republic Over Proposed HFCS Soft Drink Tax," September 3, 2004.
[43] American Farm Bureau Federation, "Implications of a Central American Free Trade Agreement on U.S. Agriculture," http://www.fb.org/issues/letters/CAFTA_Report.doc.
[44] ITC, 2004.
[45] ITC, 2004.
[46] American Sugar Alliance, U.S. Sugar Policy Under the Farm Bill, retrieved on 03/15/05, http://www.sugaralliance.org/desktopdefault.aspx?page_id=89.
[47] ITC, 2004.

A cushion exists, however, between the “trigger level” of imports that would suspend marketing allotments and projected imports under the DR-CAFTA.[48] The U.S. International Trade Commission estimates that it would take about 60 years following the agreement’s implementation for this cushion to be exceeded, taking into account growth in imports during the phase-in period and subsequent annual imports of 2,640 metric tons under the agreement.[49] In 60 years, it is unknown whether marketing allotments would even be a part of U.S. sugar policy. In any case, the ITC believes it unlikely that increased imports resulting from the agreement will trigger the suspension of marketing allotments.[50]

Furthermore, in the unlikely event that U.S. domestic sugar policies were threatened by imports from the DR-CAFTA countries, the agreement includes a mechanism that will permit the United States to restrict sugar imports from these countries and provide them with equivalent benefits to compensate for lost market access.[51] This compensation mechanism further alleviates possible pressures that might threaten U.S. sugar policies.

### ***Textile***

Some textile producers argue that passage of DR-CAFTA will lead to textile job losses in the United States.[52] Additionally some of the same critics have argued that the U.S. textile sector is currently restructuring in response to China’s growth in this economic sector and, therefore, American companies cannot allow additional jobs to be lost to Central American textile factories.[53] Both arguments fail to grasp the long-term benefits of regional integration to the U.S. textile and apparel industry of promoting regional integration under the agreement.

DR-CAFTA will benefit the U.S. textile and apparel industry by expanding the benefits currently provided by the Caribbean Basin Trade Partnership Act (CBTPA) and making the benefits reciprocal. The CBTPA (which includes all DR-CAFTA countries) allows apparel exports from the region to enter the United States duty-free and quota-free, *provided* that they use U.S. yarn and fabric. This supports U.S. exports and jobs. Indeed, in the past four years, the region has become one of the largest and fastest-growing export markets for U.S. cotton growers, yarn spinners, and fabric mills. Regional producers face new competition from Asian imports since global quotas on textiles and apparel ended January 2005. This agreement will give the region a critical advantage in competing with Asia in a post textile-quota world by helping to retain textile production in the region, rather than moving production to China.[54]

When facilities move from Central America to China, they are much less likely to buy U.S. yarns and fabrics. Thus, the competitiveness of the U.S. fiber and yarn industry is inextricably linked to maintaining the competitiveness of the DR-CAFTA region.[55] Currently, 71 percent of DR-CAFTA-made apparel enters the United States using U.S. yarns and fabrics, while one tenth of 1 percent of apparel from China enters the United States using U.S. yarn or

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48 ITC, 2004; USTR, “DR-CAFTA Policy Brief, Sugar: A Spoonful a Week,” February 2005.
49 ITC, 2004.
50 ITC, 2004.
51 USTR, “DR-CAFTA Policy Brief, Sugar: A Spoonful a Week,” February 2005.
52 American Manufacturing Trade Action Council, “CAFTA Bad for U.S. Textile Industry and Workers,” May 28, 2004.
53 *New York Times*, “Chinese Textile Flood?” March 10, 2005.
54 John T. Hyatt, “Good for Central America, Good for U.S.,” *Times-Picayune*, March 15, 2005.
55 Cass Ballenger, “Producing for N.C.’s Textiles,” *The News and Observer*, March 1, 2005.

fabric.[56] More than $2.6 billion of U.S. fabric and yarn exports went to the six DR-CAFTA nations in 2004.[57] By keeping apparel assembly in the region through DR-CAFTA, we will retain and grow the market for U.S. exports of fabrics.

The agreement also contains tough custom enforcement procedures to ensure that only products eligible for DR-CAFTA tariff treatment benefit from the agreement. Further, the agreement contains a special textile safeguard, which authorizes the imposition of tariffs on textiles when injury occurs due to import surges.

Many of those who oppose the agreement are weavers, who point to a tariff preference level (TPL) for Nicaragua that extends duty-free treatment for 10 years for cotton and manmade-fiber apparel made in Nicaragua from fabrics made anywhere else (otherwise known as "non-originating fabric"). In other words, the fabrics do not have to come from either the United States or other DR-CAFTA countries for the apparel to be eligible under the TPL. The TPL was included only for this one country because Nicaragua is by far the smallest and least-developed apparel supplier among the DR-CAFTA countries. However, TPLs have been in every trade agreement negotiated before the DR-CAFTA (excluding Israel and Jordan). Indeed, DR-CAFTA does not include TPLs for the major Central American apparel producers — the first time that a trade agreement did not provide TPLs to our negotiating partners. The TPL granted to Nicaragua would cover only about 3 percent of the total amount of garments shipped by all CAFTA countries.

Costa Rica is the beneficiary of a small concession for wool fabric, allowing Costa Rica to source non-originating fabric up to capped amount. This concession will be phased out over two years, and was put in place to allow a wool apparel producer to coordinate with suppliers in the United States who are planning to be a source for the fabric in the future (the concession is subject to review after 18 months).[58]

The agreement also contains tough custom enforcement procedures to ensure that only products eligible for DR-CAFTA tariff treatment benefit from the agreement. Further, the agreement contains a special textile safeguard, which authorizes the imposition of tariffs on textiles when injury occurs due to import surges. Many in the U.S. textile industry (retailers, yarn spinners, knitters, and apparel producers) support passage of DR-CAFTA, such as Burlington Industries, the American Apparel and Footwear Association, Levi Strauss and Company, ERICO, International Textile Group, Union Apparel, Sara Lee, and Warnaco.

### *Labor*

Organized American labor groups oppose this free trade agreement, alleging that it does not include adequate provisions for workers' rights.[59] It should be noted that the AFL-CIO, a leading labor union opposed to DR-CAFTA, has never supported a free trade agreement,

[56] Statistical data provided by the Office of Textiles and Apparel in
the International Trade Administration at the U.S. Department of Commerce.
[57] Jeffrey Sparshott, "A Tough Sell," *Washington Times*, March 10, 2005.
[58] For more details on the textile provisions of DR-CAFTA, see the February 2005 USTR policy brief, "Textiles of CAFTA — Details of the Agreement," located at http://www.ustr.gov/assets/Trade_Agreements/Bilateral/CAFTA-DR/Briefing_Book/asset_upload_file358_7185.pdf
[59] Statement by AFL-CIO President John Sweeney on Central American Free Trade Agreement, May 28, 2004.

including the U.S.-Australia Free Trade Agreement. Further, Costa Rica, Guatemala, Honduras, Nicaragua, and the Dominican Republic have ratified all eight International Labor Organization (ILO) core labor conventions, and El Salvador has ratified six of the eight. In contrast, the United States has ratified only two ILO core conventions.

An analysis by the ILO demonstrates that the labor laws and constitutions of the DR-CAFTA countries are comparable to ILO core labor standards.[60] The problem has been, however, that the governments have lacked the capacity to enforce their labor laws due to financial constraints. To address this, the United States is taking a three-pronged approach in DR-CAFTA: First, each country must enforce its own labor laws. If they do not, then a fine will be imposed and the monies from the fine will be used to address the enforcement deficiency.[61] Second, each country must make the necessary economic and legal reforms to improve ILO adherence. Third, each country must undertake capacity building to enforce its domestic labor laws. To accomplish this, the United States is offering capacity-building assistance to improve labor law enforcement. As a first step, Congress appropriated $20 million in the FY05 Foreign Operations appropriations bill specifically to help build the capacity of Central America and the Dominican Republic on labor and environmental law enforcement.[62]

Ironically, while the AFL-CIO opposes DR-CAFTA because the agreement doesn't overtly include ILO standards, the conditions in the agreement pertaining to the enforcement of standards for workers' rights will serve as a catalyst for these countries to take labor laws seriously. Moreover, the labor provisions in DR-CAFTA are the same as those contained in the U.S.-Morocco Free Trade Agreement that Congress passed overwhelmingly last July (by a vote of 323-99 in the House and by a vote of 85-13 in the Senate).

### *Environment*

The DR-CAFTA environmental provisions promote policies that ensure protection of current laws while striving to improve those laws, with effective remedies for violating the agreement. This type of environmental protection goes beyond the requirements called for in the Trade Promotion Act (2002) and recently implemented FTAs with Chile and Singapore. The agreement has taken groundbreaking steps to mitigate environmental degradation by involving all stakeholders through meaningful public participation and capacity building for the region. There is wide appeal for the environment provisions because of these new initiatives and it is demonstrated by the support it has received from local environmental conservation NGOs from five of the six DR-CAFTA countries.[63]

Failure to pass the agreement will only serve to undermine these important initiatives to strengthen environmental protection in the region.

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[60] USTR, "CAFTA Facts: The Facts About DR-CAFTA's Labor Provisions," February 2005.
[61] USTR, "CAFTA Facts: The Facts About DR-CAFTA's Labor Provisions," February 2005.
[62] Rep. Jim Kolbe (R-AZ) authored a provision in the FY05 Foreign Operations Appropriations bill that provided $20 million to assist CAFTA countries with labor standards enforcement.
[63] Letter to Ambassador Zoellick from 10 NGO's dated January 31, 2005, http://www.ustr.gov/assets/Trade_Agreements/Bilateral/DR-CAFTA-DR/Briefing_Book/asset_upload_file351_7196.pdf.

## Broad American Support for DR-CAFTA

Since last year, scores of organizations, associations, and businesses have made known their support for passage of DR-CAFTA. Perhaps one of the most compelling, detailed, and broadly supported endorsements was issued on January 26, 2005 by the Business Coalition for U.S.-Central America Free Trade. In a letter to Senate Majority Leader Bill Frist, the Business Coalition listed five reasons why the "timely implementation" of DR-CAFTA was important, citing commercial importance ("over the last five years, the [DR-CAFTA] countries have been our fifth largest growth market worldwide"); reciprocity in U.S.-Central American trade relations and creation of new opportunities for all sectors of the U.S. economy; strengthening of democracy and rule of law "in a region that was wracked by civil war not that long ago;" critical importance of maintaining and fostering "key partnerships in the textile and apparel sector;" and the signal that would be sent to "all of the United States' trading partners that the United States remains committed to trade and investment liberalization at an important juncture in WTO negotiations."[64]

The letter was signed by the representatives of more than 100 organizations, associations, and companies, including Pepsi, Boeing, American International Group, Warnaco, the American Farm Bureau Federation, Caterpillar, Exxon Mobil, Grocery Manufacturers of America, JC Penney, Microsoft, Mars Incorporated, National Cattlemen's Beef Association, National Pork Producers Council, Procter and Gamble, Time Warner, and the U.S. Chamber of Commerce.

President Clinton's former senior Treasury and trade official, Stuart Eizenstat, has strongly argued that DR-CAFTA is a must-pass agreement. Writing in the *Wall Street Journal* earlier this month, Eizenstat stated, "The agreement is deeply in our national interest and will create, not destroy, jobs."[65] He went on to remark that "the agreement would solidify the United States as the leading supplier of goods and services to Central American and the Dominican Republic at a time when China is making serious inroads as an investor and exporter in the Western Hemisphere."[66]

## Consequences Should DR-CAFTA Fail

The economic and social consequences of failing to pass the DR-CAFTA would be significant. Economically, U.S. exporters would continue to face high tariff barriers on their exports to the region. Furthermore, U.S. service providers would continue to face numerous non-tariff barriers to their service exports.

Thousands of apparel production jobs in Central America and the Dominican Republic would be lost as investors move production facilities to China. As a result, numerous U.S. suppliers of cotton, yarns, fabrics and other components would lose an important export market — America's third largest — for their products as Chinese facilities will likely source their needed components from Asia instead of the United States. [67] Further economic consequences

[64] A letter to Senator Bill Frist (R-TN), dated January 26, 2005 by the Business Coalition for U.S.-Central America Trade.
[65] Stuart E. Eizenstat, "Trade Wins," *Wall Street Journal*, March 8, 2005.
[66] Eizenstat.
[67] USTR, CAFTA Policy Brief, "Textiles of CAFTA — Details of the Agreement," February 2005, located at http://www.ustr.gov/assets/Trade_Agreements/Bilateral/CAFTA-DR/Briefing_Book/asset_upload_file358_7185.pdf

could also include increased immigration from the Dominican Republic and Central America as displaced workers seek opportunity abroad.

Politically, failure to pass DR-CAFTA would be seen by our Central American partners as American disengagement from a strategically important region of the world. It would send a signal to our other trading partners that our nation is not committed to the principles of open markets and, thus, discourage them from making market access and other economic commitments that are vitally important to our nation as we negotiate in the Middle East, Asia, Europe, or other areas in the Western Hemisphere. Furthermore, failure to pass DR-CAFTA would have a chilling effect on the Doha Development Agenda of trade negotiations at the World Trade Organization, potentially jeopardizing our most significant opportunities to gain broad access for our agriculture, manufacturing, and services exports.

## Conclusion

DR-CAFTA is the latest in a series of successfully negotiated, far-reaching, economically-beneficial trade agreements undertaken by the Bush Administration. DR-CAFTA is the first trade agreement since the U.S.-Chile Free Trade Agreement was passed in 2003 that includes economies in America's geographic backyard. Most importantly, DR-CAFTA is a great economic package for both the nations of Central America and the United States. The agreement will provide new economic opportunities for American investors and secure American and Central American jobs.

DR-CAFTA is as much a political statement as it is an economic one. As Senator Charles Grassley (R-IA) has noted:

> [DR-CAFTA] shows our strong desire to reach out and form deeper and lasting bonds with the international community, particularly in Latin America. The agreement will help to lock in economic reform and increase transparency in the region. DR-CAFTA can serve as a cornerstone of economic growth and democracy for the region which will enhance the standard of living for millions of our southern neighbors.[68]

Congress should pass DR-CAFTA. It is in our national economic, political, and security interests to do so.

[68] Senator Charles Grassley (R-IA), *Congressional Record*, July 22, 2004.